

Abstract

This paper examines the relationship between debt and trust in the financial system and their potential impact on the capitalist system using a panel dataset of 400 Czech firms from 2018 to 2021. Specifically, the relationship between inflation, capital structure, firm age, and the debt-to-equity (D/E) ratio of firms in different sectors and size categories was investigated. To this end, we employed a fixed effect regression on each sector and size category in our data. Capital structure was found to have a positive relationship with D/E ratio in certain firm sizes and sectors and older firms were found to have lower D/E ratios than younger firms in some cases. Additionally, we used the logistic regression model to investigate the relationship between the occurrence of economic crises and three predictor variables, including the debt-to-GDP ratio, interest rate, and GDP. Our results from the logit model suggested that an increase in the Debt-to-GDP ratio and Interest Rates may increase the risk of an economic crisis or recession.

JEL Classification B21, C33, D25, E44, E51, G01, G21, G32, P1
Keywords debt-to-equity ratio, capital structure, debt financing, Czech firms, capitalism
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